**Business Studies (Year 11) – Business management: financial management case study**



The following hypothetical case study is suitable for the Business management topic in the Business Studies Preliminary course. It will assist students to develop an understanding of financial, marketing and operational key business functions, and their management and application to business situations. There is a focus on making connections and interrelatedness to the financial goals of business, internal and external influences.

It could also be used in the Business Studies HSC course as a revision task to reinforce and consolidate understanding of financial goals. However, larger and global businesses are required by the syllabus in preparation for answering questions in the HSC. Please see the reference list below for the source of this case study information.

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## Preliminary outcomes

**Teacher note:** outcomes and content in this learning sequence are drawn from the preliminary Business Studies Syllabus. This learning sequence covers aspects of the Business management topic only. Using a business case study, it focuses on selected financial management content and outcomes rather than the entire topic and outcomes.

A student:

* **P2** explains the internal and external influences on businesses
* **P4** assesses the processes and interdependence of key business functions
* **P8** evaluates information for actual and hypothetical business situations
* **P9** communicates business information and issues in appropriate formats

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## Syllabus content

**Business management**

Students learn to:

* examine contemporary businesses to:
* compare and contrast approaches to management
* investigate aspects of business using hypothetical situations and actual business case studies to:
* analyse different ways of coordinating key business functions for an SME
* explain how SME’s manage change effectively
* examine effective cash flow management

Students learn about:

* the nature of management – achieving business goals
* management approaches
* management processes

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## Business snapshot – financial management at Connections Physiotherapy

### Introduction

Being financially successful is important to all businesses, as without funds a business cannot effectively provide its goods or services to customers.

Most businesses will have the financial goals of:

* profitability, where income is higher than expenses
* liquidity, or having funds available to meet short-term (within a 12-month period) financial requirements
* solvency, which is being able to meet long-term (greater than12 months) financial commitments
* growth, which can be achieved by increasing size, capacity, diversifying, increasing exports, the value of assets or the number of stores or offices
* efficiency, where the business tries not to be wasteful with its resources.

A business may be classified by its size, such as small, medium or large. It could also be classified by its geographical location, for example, local, national or global. These goals are important for all businesses no matter what their type or size.

The following hypothetical business case study (based on a real business) provides information on how a small business went about meeting these goals.

### Preparing to open a business

Laurel Jones is a successful entrepreneur who over the past 6 years has been able to turn her chosen profession as a physiotherapist into a profitable business. After 5 years of working as a physiotherapist in a hospital, Laurel decided she would like to run her own business so that she could follow her interest in different types of remedial physiotherapy.

This move and its ensuing success did not just happen. When Laurel decided that she would like to own and manage her own business, she undertook a Certificate IV course in Accounting and Bookkeeping at TAFE and gained advice from the NSW Government’s Business Connect. She had her savings and took out a business loan to finance the establishment of the business. Laurel’s bank provided dedicated advice on how to start and successfully operate a small business. As a result, Laurel has a very sound understanding of how important it is to meet the financial objectives of profitability, liquidity, efficiency, solvency, and growth if she is to move through the challenges provided by both the business and economic lifecycles.

### The business

Laurel has owned her physiotherapy business, Connections, in an inner South-western suburb of Sydney for the past 6 years. Using her savings and the bank loan, she was able to buy the premises and some equipment. Other equipment is rented so that she can easily replace it as it passes its use-by date. Connections grew quite fast, attracting clients due to the business’ focus on using a mix of different physiotherapies which include ConnectTherapy and Studio, Rehab and mat Pilates.

In addition, the specialised services provided by the Connections physiotherapists have appealed to its targeted customer base. Over time, Laurel’s business has also grown its customer base by including barre, circuit training, Pilates and yoga in its product range. As the business became popular it added maternity classes, as well as classes for new mothers and seniors.

As the business’ reputation grew, Laurel found that many of Connections’ newer customers had been travelling from the Inner West to join classes at her studio and she had started to turn away customers. This gave her the idea of looking for a place in the Ashfield area. She chose this area as the rents were lower than other suburbs in the Inner West and there were more parking options.

### Growth as a financial goal

Over the years, Laurel has studied the market and listened to her customers. These are the reasons that she has added new products to her range. For example, when her clients told her that they could not come to classes because they could not arrange childcare, she introduced a trial run of “mum and bub” classes which became so popular, they are now a fixture.

With her customers coming from a distance to attend classes, Laurel’s decision to open a branch of her business in another suburb saw the business meet its financial objective of growth. Thus, her business has expanded both geographically and in its product range.

### Keeping an eye on the business expenses

The owner of Connections knows that to meet its financial objectives the business must keep fixed and variable costs to a minimum and there needs to be effective cost controls.

For this reason, leasing as a financial management strategy has been used by Connections. Laurel’s initial business training means that she has a strong sense of financial planning and has drawn up a budget and cash flow statement to assist her in financial planning for the business.

When Laurel found a suitable place in Ashbury within the Ashfield area, she chose to rent the premises rather than buy outright. This had the advantage of minimising the costs of setting up the new location as leasing does not come with the time and costs associated with taking out a loan. Another benefit is that the weekly rent is an established cost, and not directly subject to interest rate changes. This means Laurel is easily able to control the costs of the business. In addition, if anything goes wrong with the premises, the landlord is responsible for repairs. A further advantage is if the business is not successful in the new location, the business can end the lease (although this may incur some expenses) and does not have to go through the process of selling the studio. Thus, for Connections, this has been an effective strategy in not only controlling costs but meeting other financial objectives such as growth, liquidity and profitability. While some owners or managers do not consider leasing as an option as it is an ongoing cost that appears as an expense on the revenue statement, it does have the advantage of reducing the taxable earnings of the business, improving the bottom-line profit.

Laurel has also been able to monitor and regulate costs by developing relationships with suppliers. For example, by using the same telecommunications supplier for both of her studios, she has been able to negotiate a set price. This allows her to budget for this cost in her planning. Having the same energy supplier has allowed Laurel to negotiate a lower price. In this way, she has ensured that there are no hidden financial surprises when comparing planned and actual costs.

Having cost controls has been important in the business being able to have cash flow so that it can meet its short-term financial commitments, and thus meet its goal of liquidity.

### Moving forward – further growth

After a year of running the studio at the Ashbury location, Laurel found that the popularity of her product kept increasing and she was outgrowing the current space. As the rental contract was about to expire on the current property, she decided that this was a good time to look around for larger premises. By waiting for the lease to expire, she was able to move without incurring ‘early opt out’ expenses. In addition, as a good tenant, Laurel was also able to stay on the current premises and pay rent on a month-by-month basis while she searched for, and then set up, the new location. This was important as it meant little disruption to the services provided to her customers. Laurel also discussed her needs with the same real estate agency that managed the current premises, maintaining a positive relationship and ongoing good customer service with them.

Laurel found suitable new premises to rent in Canterbury, a 5-minute drive away from the current premises. She was able to refurbish the building to suit her business’ purposes and moved in 6 weeks after signing the lease. Her original decision to rent and not buy outright had been a sensible one as it meant that she could move to a more suitable location in a timely and cost-efficient way.

### Maintaining profitability to meet financial objectives

In trying to bring more revenue into the business, management will often look at its marketing objectives. Growth is both a financial and marketing objective and the owner was able to meet this objective by expanding her product range. By adding a studio in another suburb, she was able to grow the business and maintain consistent profit growth. Laurel has ensured that both of her studios have a similar internal layout and appearance. This is also the case with the frontage and signage of the studios. Her trainers all wear the same emblem on their work clothes. This is important in ensuring customers can trust they will get the same level of service whichever studio they attend. It is also very clear brand identification and brand reinforcement for the business.

Therefore, the financial management strategy of looking at marketing objectives around place and product has been effective in Connections meeting both its growth and profitability financial objectives.

### Conclusion

Profitability and growth financial objectives are very closely related as it is difficult for a business to meet its profit goals if it does not bring in more revenue. Connections is a business that has used effective financial management strategies of controlling costs, maximising its profits, liquidity, solvency and efficiency as they grow to successfully meet their financial goals.

## Learning sequence 1

After reading ‘Business snapshot – financial management at Connections Physiotherapy’, answer the questions below. Use your content knowledge to provide depth to your answers.

* Draw a [concept map](https://app.education.nsw.gov.au/digital-learning-selector/LearningActivity/Card/577). Fill it in using the following labels and steps
* make the main heading ‘Connections Physiotherapy’.
* label the 3 main circles of the branches as operations, finance and marketing
* add points of information from the article for each of these 3 key business functions. For example, coming off the finance branch will be terms from the article such as profit, fixed costs, rent, growth.
* Using a [fishbone diagram](https://app.education.nsw.gov.au/digital-learning-selector/LearningActivity/Card/599), list 5 of Laurel’s actions that led to her business’ financial success. Under the heading for Laurel’s actions on each fishbone heading, write
* whether it was a response to an external and internal influence
* how the action addresses the influences
* which goal of business the action helped achieve.
* Identify a fixed cost and a variable cost for Connections Physiotherapy. Outline the strategies that Laurel employed to manage these costs.
* Laurel made management decisions relating to her cashflow. Think about these and apply them to the following
* Why does a business owner need effective cashflow management if they are to achieve their financial goals?
* Individually or as a [Think-Pair-Share](https://app.education.nsw.gov.au/digital-learning-selector/LearningActivity/Index?=), highlight passages in the text that relate to cashflow or management of cashflow. For example, under the heading ‘The business’ on page 6, a relevant part of the text to highlight would be ‘other equipment is rented so that she can easily replace it as it passes its use-by date’.
* How did Laurel work towards ensuring steady cashflow in her business?
Complete the following [plus, minus, interesting (PMI)](https://app.education.nsw.gov.au/digital-learning-selector/LearningActivity/Card/551) table. Fill it in using information from the case study and your own knowledge.

Table – plus, minus, interesting

|  |  |  |  |
| --- | --- | --- | --- |
| Business decisions | Plus | Minus | Interesting(I would like to ask Laurel about this) |
| Leasing equipment |  |  |  |
| Renting premises |  |  |  |
| Owning equipment outright |  |  |  |
| Buying or owning premises |  |  |  |
| Forming exclusive business relationships with core suppliers |  |  |  |
| Expanding the business |  |  |  |
| Branded clothing worn by all employees |  |  |  |

* Explain how marketing and financial objectives are linked in Laurel’s business. Be sure to have a clear cause and effect in your answer, or an action and reaction.
* Construct a [concept map](https://app.education.nsw.gov.au/digital-learning-selector/LearningActivity/Card/577). Complete it by having Connections Physiotherapy’s financial goals as the main heading. Underneath this, list the 5 financial goals of business as their own concept stream. The goals of business are profit, growth, efficiency, liquidity and solvency. Provide examples from the case study that show how the business met or worked towards meeting its financial goals.
* Imagine Laurel did not expand her business. Predict what may have happened based on the information provided, the impacts on her business and her achievement of business goals. The goals of business are listed below
* profit
* liquidity
* solvency
* efficiency
* growth.

## Learning sequence 2 – extended response writing as a consolidation activity

**Note:** select the question below that best suits the needs of your class. Option B reflects the requirements of Section IV in the HSC, where an extended response is required to include reference to large and global business case studies.

### Option A

With reference to the business, discuss management strategies Laurel can use to ensure she continues to meet financial goals as she continues to expand.

Use the information from the activities to answer the extended response.

### Option B

With reference to business case studies, discuss management strategies that can be used to ensure businesses meet financial goals as they expand.

The marking guidelines below will assist you in your planning and writing.

### Marking criteria

Table – assessment marking criteria

|  |  |
| --- | --- |
| Grade | Criteria |
| * **A**
 | * Provides clear and detailed points for and against various management strategies
* Draws out and clearly relates the importance of management strategies in meeting business financial goals
* Applies relevant case study or case studies and contemporary business issues
* Presents a sustained, logical and cohesive response and communicates clearly using relevant business terminology and concepts
 |
| * **B**
 | * Provides points for and or against management strategies
* Makes evident the importance of management strategies in meeting business financial goals
* Uses relevant case study or case studies and contemporary business issues
* Presents a logical and cohesive response using relevant business terminology and concepts
 |
| * **C**
 | * Attempts to provide points for and or against various management strategy or strategies
* Provides characteristics and features of management strategies in meeting business financial goals
* May refer to case study or case studies and contemporary business issues
* Communicates using business terminology and concepts
 |
| * **D**
 | * May provide points for and or against various management strategies
* Sketches in general terms management strategies
* Sketches in general terms business financial goals
* May refer to case study or case studies and or contemporary business issues
* Communicates using some business terminology and concepts
 |
| * **E**
 | * Communicates using some business terminology and concepts
* Makes limited reference to management or management strategies or business financial goals
* May identify case study or case studies
* Uses basic business terminology
 |

## References

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NSW Education Standards Authority (NESA) (2021) [’A Glossary of Key Words](https://educationstandards.nsw.edu.au/wps/portal/nesa/11-12/hsc/hsc-student-guide/glossary-keywords)’, Student Guide, NESA website, accessed 6 July 2022

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